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# SteriSystems Ltd.

Webster

Annual Report  
for 1977



# Sterisystems Ltd.

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<b>Board of Directors</b>	Brian M. Flood, Solicitor, Kilgour, World, Flood, Ronson & Rossiter Sidney Liswood, President, Mount Sinai Institute, Toronto Michel M. Lessard*, Treasurer, Credit Foncier Franco-Canadien Michael J. Needham*, President and Chief Executive Officer, Sterisystems Ltd. Albert B. Ormsby, President PolyCom Systems Limited Maurice Parent, President, Familex Products Limited Donald C. Webster, President, Helix Investments Limited *Members of the Audit Committee
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<b>Officers</b>	Donald C. Webster, Chairman of the Board Michael J. Needham, President and Chief Executive Officer Alan Drizen, Vice-President & General Manager John W. Hearn, Vice-President & Secretary-Treasurer Douglas H. Last, Vice-President & General Manager Harold M. Pipher, Vice-President
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<b>Auditors</b>	Coopers & Lybrand, Chartered Accountants, Toronto
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<b>Transfer Agent and Registrar</b>	The Canada Trust Company, Toronto
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<b>Sterisystems Ltd.</b>	Head Office: 47 Baywood Road, Rexdale, Ontario M9V 3Y9
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<b>Sterivision and SteriMed.</b>	Head Office: 47 Baywood Road, Rexdale (Toronto), Ontario M9V 3Y9 375 Lebeau Boulevard, Ville St-Laurent (Montreal), Quebec H4N 1S2 7964 Alderbridge Way, Richmond (Vancouver), British Columbia V6X 2A6
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<b>Webber Pharmaceuticals Ltd. Limited/Rexall Drug (1978) Co.</b>	14 Ronson Drive, Rexdale (Toronto), Ontario M9W 1B2
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<b>Sterivet Laboratories Limited</b>	670 Hardwick Road, Bolton, Ontario
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<b>Sterivet Laboratories Inc.</b>	20102 Progress Drive, Strongsville, Ohio, U.S.A. 44136
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## Annual Meeting of Shareholders

The Annual Meeting of Shareholders will be held at 2:30 p.m. Toronto time on Thursday, May 4, 1978 at the Company's head office, 47 Baywood Road, Rexdale. All shareholders are invited to attend.

### Michael J. Needham

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After a difficult 1976, in which your Company lost \$667,000 from operations on \$10 million sales, management was determined to re-establish profitable operations in 1977. This aim was largely achieved as a modest profit from operations of \$442,000 on sales of \$13 million was recorded. An unusual write off of certain fixed assets and sales licences produced a net loss for the year of \$152,000.

The improvement in the Company's performance was due largely to the effectiveness of cost reduction programs and the contribution of price increases, particularly in the Sterivision Division.

In 1977, the Company held the increase in its cost of sales and operating expenses to 23% versus a growth of 32% in revenues. In 1976, cost of sales and operating expenses grew 41% versus a 10% revenue growth. We still have improvements to make in this area but progress is being made.

The 30% overall revenue increase was shared by all divisions except human pharmaceuticals with the hospital contracts acquired from Wells Television Limited contributing significantly. This acquisition made late in 1976 is proving to be a successful one for your Company.

#### **Operating Highlights:**

The Sterivision Division, which rents TV sets to patients in over 280 hospitals throughout Canada, operated at significantly improved levels in 1977. During the year, management concentrated on upgrading the division's operating and supervisory staff and improving our contract base. We are endeavoring to maintain our reputation as efficient suppliers of TV service to hospital patients. We are partners with the hospital in providing our unique system. In the next few years, we plan to introduce several new services which will strengthen our relationship with our hospital clients.

Effective February 1, 1978 your Company sold all the assets of its SteriFlower Division at book value as it was decided that there was insufficient profit potential in this

market when compared to other opportunities available to us.

We were particularly gratified at the progress made at Webber Pharmaceuticals Limited in the latter half of 1977. A new General Manager, hired in June, was able to arrest a slide in sales and profits and has restored a healthy performance trend to Webber.

Late in 1977, your Company purchased certain assets from Canadian Rexall Drug Co. Ltd. including all the trademarks and product formulations. Webber Pharmaceuticals has taken responsibility for the sales and marketing of the Rexall product line and is operating under the name Rexall Drug (1978) Co. 1978 will largely be devoted to implementing marketing plans for the Rexall product line, which will be profitable before the end of 1979.

The SteriMed Division continued to make progress in its sales of medical electronic equipment. It was able to geographically extend its markets for certain products and continues to develop its reputation as one of the best full service medical equipment distributors in Canada. Considering the difficulties of operating in a hospital market that is very capital cost conscious, the division's 40% sales growth was a fine tribute to the management's efforts.

Sterivet Laboratories, our veterinary drug subsidiary, made solid sales progress largely because of the promising sales performance of its new U.S. operation. This was the U.S. operation's first full year in business and operating losses were incurred. We do not anticipate a significant profit contribution from the U.S. operation until 1979. In 1977, clinical work was begun on two new products. We hope these products will be government approved and marketed by late 1978. The Company's policy is to write off all costs associated with such research and development in the year incurred.

#### **Financial Policy**

In 1977, the Company made certain changes in accounting policy as explained in the Notes to the Consolidated Financial

Statements. Research and development expenditures which in prior years were capitalized and amortized on a straight line basis over three years are now written off in the year incurred.

Your Company also decided to write off all costs associated with the patented drug "Orgotein." Management has become increasingly concerned as to the profit potential of this drug, under the terms of our existing sales and manufacturing licence agreements, even assuming its eventual approval and marketing in Canada. Discussions with the licensor, Diagnostic Data Inc. are underway but there is a strong possibility that Sterisystems will relinquish its right to sell or manufacture Orgotein, and be relieved of further obligations to develop the drug.

The Company strengthened its working capital position by \$530,000 during the year and relations with our bankers, Barclays Canada Limited, and suppliers are satisfactory.

### **New Management and Programs**

In 1978, your Company shall be aggressively implementing a number of market programs begun in 1977:

- a) the introduction of new services in the Sterivision Division;
- b) the marketing of the Rexall product line by Webber Pharmaceuticals;
- c) the expansion of Sterivet's U.S. and export markets;
- d) the broadening of SteriMed's product base and sales and service capabilities.

On November 1, 1977 Michael J. Needham was appointed President and Chief Executive Officer of your Company. This was one of a number of important management appointments in 1977. The senior management of the Company are:

Robert M. Ableman, General Manager, SteriMed Division

Evan J. Altshuler, Director, Human Resources and Organization Development

Robert A. Coté, General Manager, Webber Pharmaceuticals Ltd. and Rexall Drug (1978) Co.

Alan Drizen, Vice-President and General Manager, Sterivet Laboratories Ltd.

John W. Hearn, Vice-President, Finance and Administration

Douglas H. Last, Vice-president and General Manager, Sterivision Division

In 1978, your Company will strengthen its marketing capabilities as a specialty marketing company in the Canadian health care industry. Your management team is committed to achieving significantly improved profits in 1978 and believes your Company will achieve satisfactory overall profit and return on investment levels by 1979, with acceptable contributions from all divisions.

On behalf of the Board of Directors, I should like to thank all associated with the Company, particularly its employees and shareholders, for their continued loyalty and positive response to our initiatives.

*Michael J. Needham.*

**The Year at a Glance**

	1977	1976
Revenue	\$ 13,026,000	\$ 9,858,000
Cash Flow from Operations	1,774,000	518,000
Income (Loss) from operations	442,000	(667,000)
Net Profit (Loss) for the Year	(152,000)	(526,000)
Earnings (Loss) per Share — fully diluted	(0.11)	(0.37)
Common Shares Outstanding at Year-end	1,407,703	1,407,703
Shareholders' Equity	\$ 4,056,000	4,208,000
Total Assets	\$ 11,266,000	\$ 11,655,000

### Sterivision Division

We presently serve 280 Canadian hospitals, representing 66,000 hospital beds, with our unique and patented Sterivision Patient Television Service. A substantial increase in television rental revenues was experienced in 1977, due largely to the successful integration of the Wells Television hospitals into our operation. In 1977, our hospital clients responded positively to our requests for rental rate increases in line with inflation and the division's performance improved.

Management continues to concentrate on the better training and motivation of our operating staff — hospital attendants, supervisors and regional managers. These efforts will begin to show up in improved results in 1978.

The division will introduce a colour Sterivision Service and Patient Education Programming in 1978. We are confident that these new services will add to Sterivision's reputation as the leader in providing patient programming in Canadian hospitals.

### SteriMed Division

Our medical products division continues to operate in a difficult sales environment. Hospital capital budgets remain tight and it is a tribute to the management that progress has been so encouraging. Sales grew 40% in 1977 over 1976 as new products from both existing and new suppliers created new marketing opportunities.

The division is now firmly established as a leading Canadian distributor of sophisticated medical products to the Health Care Industry. Sales and technical staff have been increased in 1977 to complement our existing productive sales force and should enable SteriMed to maintain a high growth rate throughout 1978.

### Webber Pharmaceuticals Limited and Rexall Drug (1978) Co.

During 1977, Webber maintained its position as leading supplier of 100% pure alpha-tocopheryl acetate, commonly known as natural Vitamin E.

Sales of timed release Vitamin C capsules, introduced in 1976, continued to grow significantly. Plans for 1978 call for the introduction of an aggressive product development program.

The acquisition of certain assets of the Rexall Drug Company in 1977 represents a significant challenge for the Company in 1978. Immediate sales growth will come from the supply of Rexall products to existing franchised pharmacies, located throughout Canada. The Company is exploring the opportunities that the Rexall brand name affords the Company and will be developing our marketing programs throughout 1978.

### Sterivet Laboratories Limited

Sales of Sterivet's equine products increased 40% in 1977 due to continued growth of our injectable products and the Vitamin E based Feed Supplement. New product development continues in both the injectable drug and feed additive areas.

The successful launching of a new organic electrolyte feed supplement early in 1977, stimulated the development of an injectable organic electrolyte product which will be introduced in the Spring of 1978. These developments plus more emphasis on overseas export markets should ensure continued sales growth in 1978, although the Canadian market has become more competitive and historical sales increases difficult to maintain.

Prospects for the Sterivet U.S. operation are encouraging with considerable emphasis being placed on the sales of feed supplements. The U.S. operation still requires financing, but we anticipate profitable operations to begin before the end of this year.

**Consolidated Balance Sheet as at December 30, 1977**

<b>Current Assets</b>	<b>1977</b>	<b>1976</b>
Cash and short-term deposits	\$ 780,976	\$ 33,620
Accounts receivable	1,313,264	1,178,797
Inventory (note 3)	1,204,854	1,031,191
Income taxes recoverable	19,236	99,225
Prepaid expenses	106,325	86,463
	<b>3,424,655</b>	<b>2,429,296</b>
Advances to officers, less current portion (note 7)	20,700	23,337
Instalment receivables, less current portion	180,235	166,755
Fixed assets (note 4)	6,574,498	7,607,645
Goodwill	926,667	995,205
Patent licences and trademarks	139,377	85,500
Sales licences and deferred research and development expenditures (note 2)	—	347,141
	<b>7,841,477</b>	<b>9,225,583</b>
	<b>11,266,132</b>	<b>11,654,879</b>

**Auditor's Report**

To the Shareholders of  
Sterisystems Ltd.

We have examined the consolidated balance sheet of Sterisystems Ltd. as at December 30, 1977 and the consolidated statements of loss and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 30,

1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles which, except for the change in accounting policy as set out in note 2, have been applied on a basis consistent with that of the preceding year.

The comparative figures for the year ended December 31, 1976 have been reported upon by other auditors.

COOPERS & LYBRAND  
Chartered Accountants  
Toronto, Canada  
March 6, 1978

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**Current Liabilities**

	1977	1976
Bank indebtedness (note 5)	\$ 214,840	\$ 340,234
Accounts payable and accrued liabilities	1,130,372	1,203,512
Current portion of long-term debt (note 6)	1,085,668	421,029
	2,430,880	1,964,775
Long-term debt (note 6)	3,094,332	3,830,000
Deferred income taxes	1,525,333	1,538,133
Deferred revenue	159,325	113,749
	7,209,870	7,446,657

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**Shareholders' Equity**

Capital stock (note 7)

Authorized:

3,000,000 common shares without par value

Issued and fully paid:

1,407,703 common shares	5,229,955	5,229,955
Deficit	1,173,693	1,021,733
	4,056,262	4,208,222
	11,266,132	11,654,879

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SIGNED ON BEHALF OF THE BOARD

Donald C. Webster

DIRECTOR

Michael J. Needham

DIRECTOR

**Consolidated Statement of Loss and Deficit for the year ended December 30, 1977**

	1977	1976
Revenue	\$ 13,025,830	\$ 9,857,976
<b>Expenses</b>		
Cost of sales and operating expenses	10,858,940	8,892,486
Depreciation	1,241,735	1,135,523
Amortization of goodwill and licences	78,038	182,243
Interest — long-term debt	361,547	193,792
other	43,676	121,257
	12,583,936	10,525,301
Income (loss) from operations	441,894	(667,325)
<b>Other expenses</b>		
Employees' termination costs	34,000	230,000
Write-off of sales licences and deferred research and development expenditures (note 2)	347,141	—
Write-down of certain hospital installation costs	201,293	—
	582,434	230,000
Loss before income taxes	140,540	897,325
Provision for (recovery of) income taxes (note 10)	11,420	(371,400)
Net loss for the year	151,960	525,925
Deficit — beginning of year	1,021,733	495,808
Net loss for the year	151,960	525,925
Deficit — end of year	1,173,693	1,021,733

**Consolidated Statement of Changes in Financial Position  
for the year ended December 30, 1977**

	1977	1976
<b>Source of working capital</b>		
Provided from operations		
Net loss for the year	\$ (151,960)	\$ (525,925)
Items not affecting working capital		
Depreciation	1,241,735	1,135,523
Amortization of goodwill and licences	78,038	182,243
Reduction of deferred income taxes	(12,800)	(273,450)
Write-down of certain hospital installation costs	201,293	—
Write-off of sales licences and deferred research and development expenditures (note 2)	347,141	—
Loss on disposal of fixed assets	70,235	—
	<b>1,773,682</b>	<b>518,391</b>
Increase in long-term debt	350,000	3,270,000
Reduction in advances to employees	2,637	54,303
Issues of common shares	—	11,750
Proceeds on disposal of fixed assets	123,835	1,000
Increase (decrease) in deferred revenue	45,576	(4,720)
	<b>2,295,730</b>	<b>3,850,724</b>
<b>Working capital applied to</b>		
Purchase of fixed assets	603,951	1,171,148
Long-term debt repaid or included in current liabilities	1,085,668	1,493,951
Purchase of goodwill	—	504,815
Patent licences and trademarks	63,377	—
Sales licences	—	110,000
Research and development	—	136,338
Increase (decrease) in instalment receivables	13,480	(30,744)
	<b>1,766,476</b>	<b>3,385,508</b>
Increase in working capital	529,254	465,216
Working capital (deficiency) — beginning of year	464,521	(695)
Working capital — end of year	<b>993,775</b>	<b>464,521</b>

## Notes to Consolidated Financial Statements for the year ended December 30, 1977

### 1. Accounting Policies

- (a) Principles of consolidation  
The consolidated financial statements include the company and its wholly-owned subsidiaries.
- (b) Inventory  
Inventory is valued at the lower of cost, determined on the first-in, first-out basis and net realizable value.
- (c) Depreciation policy  
Depreciation is provided on a straight-line basis as follows:  
Cost of hospital installations —
- |                        |               |
|------------------------|---------------|
| Original               | 10 years      |
| Subsequent             | 3 years       |
| Television sets —      |               |
| Black and white        | 10 years      |
| Colour                 | 7 years       |
| Other equipment        | 3 to 10 years |
| Leasehold improvements | term of lease |
- No depreciation is provided on television sets and materials for use in future hospital installations until such time as these items are in use.
- (d) Goodwill  
Goodwill is stated at cost less amortization, provided on a straight-line basis over fifteen years.
- (e) Patent licences and trademarks  
Patent licences and trademarks are stated at cost less amortization, provided on a straight-line basis over ten years.
- (f) Research and development expenditures  
Research and development expenditures are written off in the year incurred effective from January 1, 1977.
- (g) Sales licences  
Sales licences are recorded at cost less amortization, provided on a straight-line basis over five years. Should any licence in the opinion of management cease to be viable, all unamortized costs related to that licence will be written off in that year.
- (h) Deferred revenue  
The company recognizes revenue on long-term lease contracts over the term of the lease.

### 2. Change in accounting policy

Research and development expenditures, which in prior years were capitalized and amortized on a straight-line basis over three years are now written off in the year incurred. The deferred research and development expenditures at the end of 1976 have also been written off in the current year.

### 3. Inventory

	1977	1976
Raw materials	\$ 326,095	\$ 361,396
Finished goods	827,749	602,164
Packaging materials	51,010	67,631
	1,204,854	1,031,191

### 4. Fixed assets

	Cost	Accumulated Depreciation	1977 Net	1976 Net
Television sets and materials for use in future hospital installations	\$ 31,656	\$ —	\$ 31,656	\$ 57,026
Television sets, rental equipment and hospital installations in service	10,496,520	4,369,193	6,127,327	7,175,785
Other equipment	662,781	308,988	353,793	333,392
Leasehold improvements	209,605	147,883	61,722	41,442
	11,400,562	4,826,064	6,574,498	7,607,645

## 5. Bank indebtedness

The bank indebtedness is secured by a first charge on the company's accounts receivable.

## 6. Long-term debt

	1977	1976
Registered secured demand debenture with Barclays Canada Limited at the rate of 1¼% above the lender's cost of funds, evidenced by a demand note, with repayments of \$42,000 monthly, commencing January 1, 1978 (note (a))	2,650,000	2,300,000
10% promissory note payable in equal quarterly instalments of \$40,417 commencing January 1, 1978 and secured by a registered collateral debenture (note (b))	970,000	970,000
Non-interest bearing note, payable \$350,000 annually and guaranteed under the registered secured demand debenture (note (a))	350,000	700,000
7% promissory note, payable \$70,000 annually with annual increase of 1% in the interest rate	210,000	280,000
Sundry loans at varying rate and maturities	—	1,029
	4,180,000	4,251,029
Less: current portion	1,085,668	421,029
	3,094,332	3,830,000

- (a) The registered secured demand debenture is for \$3,000,000 and is secured by a fixed and floating charge over the whole of the company's undertakings and includes a specific pledge of the shares of subsidiary companies. This debenture is secondary to the bank (note 5) and the registered collateral debenture as set out in (b). In addition to certain other conditions, the company may not declare or pay dividends on its common shares without the prior consent of the registered secured demand debenture holder.
- (b) The 10% promissory note is secured by a registered collateral debenture and has a fixed and specific charge on certain rental television sets and related equipment.

## 7. Capital Stock

At December 30, 1977, options on 10,700 common shares were outstanding, exercisable at \$2.50 to \$3.47 per share for periods up to 1981.

The employee advances are related to amounts advanced in prior years under the executive stock purchase plan.

## 8. Anti-Inflation Act

The company is subject to that portion of the Anti-Inflation Act which provides as from October 14, 1975 for the restraint of dividends in Canada.

## 9. Long-term leases

The company rents buildings and leases equipment under long-term leases which expire at various dates to November 30, 1979, the annual rental for which is approximately \$95,000.

## 10. Income taxes

For the year ended December 30, 1977, a U.S. subsidiary had a loss of approximately \$114,000. The tax effect of this loss has not been recorded in the 1977 accounts. This subsidiary has accumulated tax losses of \$196,000 which must be utilized to the extent of \$82,000 by 1983 and \$114,000 by 1984. As the accumulated losses of \$196,000 may be carried forward for a maximum of seven years, the following amounts must be utilized within the years noted: 1983, \$82,000 and 1984, \$114,000.

## 11. Statutory information

During the year the company had seven directors whose aggregate remuneration as directors was \$13,800. There were six officers whose aggregate remuneration as officers was \$219,677 including \$34,000 of termination cost. Two officers were also directors.

Revenue by class of business was as follows:

	1977	1976
Hospital Services	50	48
Pharmaceutical	27	31
Medical Equipment Sales	23	21
	100%	100%

## Five Year Summary

	1977	1976	1975	1974	1973
<b>Operating Results</b>					
Revenue	\$ 13,025,830	\$ 9,857,976	\$ 9,049,127	\$ 7,675,886	\$ 5,638,451
Income before interest, depreciation and amortization, write-offs and income taxes	2,132,890	735,490	2,721,141	2,926,111	2,187,633
Cash Flow	1,773,682	518,391	2,182,108	2,322,431	1,752,494
Profit (loss) for the year	(151,960)	(525,925)	877,943	1,002,059	804,200
Earnings (loss) per share — fully diluted	(0.11)	(0.37)	0.60	0.70	0.58
<b>Shares outstanding at year end</b>					
Common	1,407,703	1,407,703	1,402,853	1,359,873	1,359,873
<b>Balance Sheet Data</b>					
Total Assets	11,266,132	11,654,879	11,562,067	9,733,249	7,810,424
Long Term Debt, net of current portion	3,094,332	3,830,000	2,053,951	2,220,729	2,821,349
Deferred income taxes	1,525,333	1,538,133	1,811,583	1,267,098	602,190
Shareholders' equity	4,056,262	4,208,222	4,722,397	3,725,879	2,723,820



